



U.S. COMMERCIAL REAL ESTATE'S

Environmental Performance



APPENDIX: EUROPEAN UNION AND UK REGULATIONS AND APPROACH

France is one country which has taken significant steps when it comes to environmental regulations in relation to assets, according to Cushman & Wakefield valuation colleagues in EMEA. Here's an overview of the government regulation in France and the approach Cushman & Wakefield's valuation team is taking in Paris:

- The European Commission has created the EU taxonomy, which is a classification system providing companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable.
- The Taxonomy Regulation came into effect in the EU on July 12, 2020, and enables countries to create ESG Scorecards, KPIs and Energy Performance Certificates (EPCs).
- The EPC rates the energy efficiency for a property from 'A+' (most efficient) to 'G' (least efficient). Properties are also given a score. The larger the number, the more CO2 the property is likely to emit.
- Our clients in Paris are providing our valuation team with their third-party assessments and reports related to sustainability and energy/environmental performance. For the properties that do not comply to the EU taxonomy standards, our valuation team requests information from the client on costs to achieve compliance.
- Where cost figures are provided, our valuation team will assume that they have been prepared by suitably qualified professional advisers. If costs to achieve compliance are provided, then we may not be able to issue a valuation report except on the special assumption that the property is assumed to be compliant or exempt.
- When capital is required, our valuation team factors these costs in. These costs are provided by the client and referred to as a brown discount.

Following is an overview of the government regulations in England, according to a Cushman & Wakefield report published in March 2022 on Green Buildings and the ESG Agenda.

- Minimum Energy Efficiency Standard (MEES) came into effect in England and Wales on April 1, 2018 and apply to all private rented commercial and residential properties to help towards Net Zero targets.
- MEES requires all buildings to have a valid Energy Performance Certificate (EPC) when they are rented. This applies to new leases and renewals.
- As of April 1, 2023, all new and existing commercial properties will need an EPC rating of E or higher and will move up to C by 2027, and B by 2030.
- 90% of existing non-domestic buildings would fail to comply with the EPC A and B requirements by 2030 if no action is taken.
- A high-cost exemption is available if capital expenditure for building improvements do not meet a maximum seven-year payback based on energy cost saved (based on a three-quote system).
- Influences that impact an EPC rating include transition to electric heat pumps, LED lighting, investing in SMART building technologies, localized renewable power sources (i.e., solar panels), increased insulation for external walls, etc.